Brough, William

India's famine and its cause

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INDIA'S FAMINE AND ITS CAUSE.

ANY form of money, to be effective in promoting industry and productiveness (the purpose of money) in such countries as India, China, Japan, the Philippines, Mexico, Cuba, Puerto Rico, and even in our Southern States, must have an intrinsic value equal to its current value; it must be money that the laboring class can hide away or hoard without any risk of loss by depreciation. These peoples have not yet reached the credit stage of industrial civilization; they are distrustful of paper money and will not take it if they can get metallic money. Their first savings are generally taken from the currency and hidden away, not put in bank. This natural disposition should be encouraged rather than thwarted, for every such hoard is a stimulus to individual industry. The consciousness of his hoard makes a man more industrious whether he is working for himself or for a master; his interest has become identified with the support and conservation of order and peaceable government.

The famine in British India to-day is, as was that of 1897, a direct consequence of the demonetization of silver in 1893, whereby a factitious current value was given to the rupee. The laboring millions of India, the *ryots,* who are the cultivators of the soil, had long been in the habit of putting all their savings into silver bangles or other silver ornaments, and it was upon these small hoards that they depended to enable them to bridge a season of short crops or of famine. The effect of demonetization upon these hoards was first to rob them of a portion of their marketable value and thereafter to deprive them, and all the uncoined silver in British India, of that superiority in stability and exchangeability over all other commodities which is always possessed by the metal that constitutes the currency and is the monetary standard of a people. The effect of demonetization was, in short, to thwart and dis-

courage the wholesome practise of saving, and to impress the *ryot* with hopelessness.

An article in *The Nation* (New York) of May 3d, entitled "The Famine in India," by Professor Washburn Hopkins, of Yale, who is presumably an authority, scornfully repudiates the idea that the efforts of the Indian government to force a gold standard upon that country have anything to do with the famine, and urges that the only thing to be considered at present is the best and speediest means of relieving the sufferers from the famine. I should be sorry to say any word that would tend in the slightest degree to lessen the efforts of our people to help these unfortunates; but if false monetary ruling is the cause of the famine, as I believe it to be, it cannot be inappropriate nor premature to state the fact now, so that the proper remedy may be found and applied. Certain it is that charity is not that remedy. Professor Hopkins is inclined to hold the Hindu *ryot* responsible for famine conditions, because under native rule "centuries of oppression had left him helpless and improvident." But, it may be asked, what of the one hundred and fifty years of British administration that have since intervened? Had not the more intelligent and less oppressive rule in some degree changed the *ryot's* nature and habits for the better? The evidences are that it had; with the result that, prior to 1893, when the government changed its monetary policy, British India as a whole was gradually outgrowing famine conditions. There had been no general famine in India between the years 1875 and 1897, while throughout this period the country had been very prosperous.

Sir Alexander McKenzie, for some years governor of Bengal and for thirty-six years in the India Civil Service, has testified (Blue Book C—9222) that the famine of 1897 was "every bit as severe as that of 1875." This he states from personal knowledge and observation. He also says, "I was greatly struck last year [1897] by the improved strength of the cultivators in meeting distress;" a strength, be it noted, which had been growing during twenty years of prosperity, but

which under the changed conditions is gradually failing, as is shown by the *ryot's* reduced ability to meet the present famine, the severity of which is increased by that very inability.

This view is sustained also by the latest trade-tables of British India, published in 1900 (Blue Book Cd—26), which show that while there had been a remarkably uniform increase of imports, averaging 6 per cent. per annum for twenty years prior to 1893-4, the increase reported for the subsequent four years (or since closure) is less than 1 per cent. per annum. These tables also show that there was an increase of 57 per cent. in the exports for the fourteen years immediately preceding 1893-4, and an increase of only 8 per cent. for the subsequent five years. This shrinkage in imports and exports is conclusive evidence of a shrinkage in the productive power of the people, a natural sequence of which shrinkage is reduced financial and therefore reduced physical power to resist famine.

If we will examine the testimony taken before a "committee appointed to inquire into the Indian currency," we shall find that the weight of this testimony is in favor of reopening the mints. I select Blue Book C—9222, as the testimony printed in this volume was all taken between November 4, 1898, and March 17, 1899, fully six years after the closing of the mints. I speak of "weight of testimony" because, of the twenty-five witnesses examined, fourteen were against closure, two were neutral, and nine were for closure; of these nine, four were connected either with the administrative or with the civil service of India. But, in the relation of the witnesses to the subject and in the character of the testimony given, the preponderance against closure is, in my judgment, very much greater. One has to read the testimony in order to appreciate it fully. The arguments of Sir Robert Giffen, of Sir John Lubbock, and of Robert Barclay, in favor of open mints, are unanswerable. Robert Barclay, as president of the Manchester Chamber of Commerce, appeared before the committee in support of a resolution against closure which maintained that "it is neither possible nor expedient to establish a gold standard with a gold currency in India;" an absolutely correct state-

nent, though the present government of India appears to be of opinion that it can accomplish the feat.

A remarkable feature of this testimony is that the very class that was to be benefited by the fixity of exchange which it was presumed would result from closure was opposed to closure. In a letter dated March 3, 1898, addressed to the Secretary of State for India, in London, by the government of India, and published in Blue Book C—844, the statement is made that " stability of exchange was the main object of the policy adopted in 1893;" yet of the class referred to—merchants and bankers—twelve of the fourteen examined were opposed to closure. Sir John Lubbock said: "The inconvenience of a fluctuating exchange has been considerably exaggerated; . . . the internal trade of a country is of much more importance than the external." Donald Graham, of Glasgow, Indian merchant, said: "Too much stress is laid on the difficulties of the government, and too little thought given to the interests and wishes of the people. . . . India needs a free, large, cheap, and abundant currency." Sir Robert Giffen, of the London Board of Trade, said: "The difficulty of the Indian government in adjusting its budget was the serious matter." Henry Bois, chairman of the Ceylon Chamber of Commerce, said, "Fixity of exchange is not an essential factor." These are a few specimens, taken almost at random, of the way in which many of the witnesses received the government's assertion that a stable exchange was what it had chiefly in view in its change of monetary policy. The fact is that opposition to closure was the attitude taken by a great majority of the men connected with the trade, commerce, banking, and industrial development of India.

A little study of these Blue Books must convince any one that, in closing the mints, the India government was not consulting the interests of the merchants, the bankers, or the producers of India. Nor does the ostensible motive, "stability of exchange," seem to have been even a secondary consideration with that government; indeed, we have the testimony of one who was instrumental in procuring closure

and who still favors it that "the real motive cause was the great embarrassment of the financial department of the Indian government." There had been a deficit in the revenue, and "the Finance Minister did not see his way to any mode of filling that deficit by the imposition of taxes." (The Right Hon. Leonard Courtney, M. P.—Blue Book C—9222.) The question of revenue runs all through the testimony given, and there is entire unanimity of opinion that no increase of taxes can be borne by the people. Earl Northbrook declared that "to increase taxation would be unwise and dangerous" to the maintenance of British rule in India. There had been practically no deficit in revenue in the twenty years preceding 1892, and the deficit in March, 1893, was only Rx. 2,398,000 (Rx.=10 rupees), or about £1,500,000. But, to an Indian Administrator, any deficit is a grave matter; it affects his status in the official service of the British Empire. Famine can be easily explained in a way that will save him from blame—"drought and short crops," or "the helplessness and improvidence of the cultivators," will suffice to satisfy the home government and people; but let a question arise as to the payment of interest on the debt due by India to England, and the Administrator will at once find himself in serious trouble.

If, then, we will keep in mind the paramount importance of a good budget, together with the responsibility thrown upon the Viceroy and his Council in India (coöperating with the Secretary of State for India, in London) to produce such a budget, and if in addition to these facts we will allow for a lack, on the part of these gentlemen, of knowledge of certain economic principles, we shall be in a position to understand why, in the matter of closure, the Indian government acted in opposition to the business interests and best business judgment of the country. As a specimen of the economic ignorance referred to, I quote again from Blue Book C—844, which is a correspondence between the Council Board in India and Lord George Hamilton, Secretary of State for India, in London: "Our experience since 1893 has put beyond doubt one of the

main principles upon which the legislation of that year was based—a principle which was challenged at the time—namely, *that a contraction in the volume of our silver currency, with reference to the demands of trade, has the direct effect of raising its exchangeable value in relation to gold.*" Now, who was it that "challenged" this economic principle? It would be interesting to know, for certainly no one who has given any thought to the subject has ever questioned it. Whatever the currency may be, whether gold, silver, or paper, if the volume is restricted below the needs and all substitutes barred from entering, the value *must rise,* not only "in relation to gold," but to all other commodities. As a matter of course, these gentlemen understood that if the rupee had been made redeemable in gold at the rate fixed (1s. 4d.) it would maintain that value in the circulation; for they had before them the concrete example of silver so circulating in England and in the United States. But their plan to force up the value of the rupee was not by redeeming it in gold but by contracting the volume of the currency, and the success of this plan was what amazed them and led them to believe that they had discovered a new principle in economics.

There was no ground for their astonishment; by this same process the rupee can be carried up to two shillings if desired—but at what a cost! The people must have a common medium of exchange, whatever its price, or go back to barter and barbarism; and they must have a supply of this medium sufficient to meet every need at every point where production is possible, or their trading will decline and with it their productive power. As well might the government issue a mandate substituting forked sticks for steel plows as to deprive India of a "*free, large, cheap, and abundant currency;*" for the former course would be no more certain than the latter to reduce the productive ability of the cultivators. Yet to deprive India of such a currency is what the Indian government, in its ignorance of economic principles, has done; and that revenue which it was acknowledged could not be increased by additional taxation has been increased by a sort of thumb-screw process,

which in its operation diminishes the ability of the *ryot* to pay these taxes.

To increase the revenue by giving a false current value to the rupee may seem to the gentlemen who meet in council at Government House, Calcutta, an unimportant proceeding, but to the millions of poor cultivators it is a very serious matter. In adopting their monetary rulings, these gentlemen do not look below the commercial and banking level for indications of what is needed; if they would, they might discover that the cultivator is prompted to industry in his small way by precisely the same incentive that prompts the merchant or banker to activity—a desire to better his worldly condition. They might also discover that, in the interdependent relation of merchant, banker, and cultivator, the last is the most important factor; that he is, in fact, the tap-root of India's industrial growth.

It follows, therefore, that in framing a monetary system for India the needs of the cultivator must be taken into account as fully as the needs of the merchant or the banker. And properly to appreciate these needs we must bear in mind that the merchants and bankers are in the credit stage of industrial progress, whereas the cultivators have not yet reached that stage. The merchants and bankers may use gold money and paper money, but the cultivators cannot use either, because gold is too costly a metal to circulate and subserve the purpose of money among a people so poor, and whose trade transactions, though innumerable and large in the aggregate, are individually small; and because paper is credit-money. With the cultivator, credit has not yet become a factor in trade; he must have an equivalent in hand for value parted with; he has no banks, for banks only come into existence when confidence and the disposition to give credit permeate a community. It is only a little over two hundred years since banks became a part of the industrial mechanism in England. In India there are, however, numerous money lenders, or usurers, who live and thrive through the necessities of the cultivators by making advances to them upon the security of their crops or of their silver hoardings.

If these conditions are carefully considered, it will be seen that the currency of the cultivator should be metallic, and that the coin that constitutes this currency should have a marketable value as bullion exactly equal to its current value as money. With the mints always open to coin for individual account, this is what the currency would be; for then the coins could pass at no other than their bullion value. This was the character of the rupee currency prior to 1893; it was then true money: it is now fiat money.

Prior to 1893 the rupee served the cultivator as a measure of weight as well as of value; it was the *tola* (180 grs.) that went into one scale when his ornaments went into the other, in order that he might ascertain their market value when he had occasion to pledge or sell them. That these ornaments were always worth their weight in rupees he knew perfectly, in spite of his ignorance of finance; to him it must have seemed, indeed, like a law of nature, for until after 1893 he had known no time when this rule did not hold good. Nor could it be otherwise so long as the mints were open and free to coin for him; consequently, he put all his little savings into silver ornaments, since by this means he could not only please the feminine members of his family with articles of personal adornment but could at the same time provide against the contingency of a short crop. This manner of hoarding silver was so general and has been so long practised in India that it may be called a hereditary habit, and no better provision against want could have been adopted by a people living always so near to the starvation line.

Professor Hopkins blames the usurer for the helplessness of the "peasant farmer;" he says "his grain goes chiefly not to pay the land tax, but to buy a mortgage and keep the usurer quiet. For the expenses of a wedding or a funeral he will cheerfully double this same mortgage. And he pays 180 per cent to 300 per cent. interest, not on the sum loaned but on this sum with a cipher added, which the usurer knows how to tuck on and the peasant is too ignorant to discover." It happens, nevertheless, that the wisdom of Solomon could not have de-

vised a better method of protection against the wiles of the usurer than that adopted by the cultivator in hoarding silver. Instinctively he had seized upon the one commodity for saving which gave him the upper hand in his trading. Knowing as he did that the ornaments pledged for his borrowings were, weight for weight, the equal in value of the rupees paid to him by the usurer, a computation of the amount of interest due was not beyond his capacity.

It was not until the simple financial methods of the cultivator were demolished by the action of his British ruler that he became a helpless prey to the rapacity of the native usurer. By demonetization his indebtedness to the usurer was increased in the proportion of the fiat value added to the rupee, and his taxes were similarly increased. By demonetization the value of his silver ornaments had been depreciated in the same ratio that his debts and his taxes had been increased; but a still more serious consequence to him was that these silver ornaments no longer served him as effectively as before the mints were closed. Having lost through demonetization the function of money, these ornaments were no more available to the cultivator in effecting his exchanges than would be an equal amount, in value, of any one of the base metals. With open mints the ornaments had been to him equivalent to money in hand. With open mints the uncoined silver, which is so generally diffused among the people of India, became actual money wherever and whenever it was used to effect an exchange.

I am aware that the Indian government considers that only the silver that is coined is money; but this is not the view held by bankers, nor does it accord with their practise. No one will question for a moment that the uncoined gold in the Bank of England, which is held for the redemption of notes in circulation, is as truly money as is the coined gold similarly held. It is the service performed by the silver or by the gold, and not the coining, that constitutes it money. All that coining does is to verify the quantity and quality of metal in the pieces and to fix a unit coin, or common denominator, for convenience in computations.

It is useless to talk of giving India a gold currency, for it cannot be done; a metal so costly cannot circulate in that country, and therefore cannot be brought within the reach of the cultivators, as it must be if it is to subserve their monetary needs. Of all commodities, silver is the one most eminently fitted for this service. Silver was the money of India long before the Englishman had made his appearance there; it had come into general use, not by the wisdom of legislators but by a process of natural selection; and if the Indian government would cease its arbitrary interference with this natural order, silver would again assume its functions as the currency and standard of value for the people of India. The ideas of money entertained by the Indian government are those that were commonly held in England at the beginning of this century; money with it is not simply a commodity that performs a certain public service, but something that can only perform its functions when it has the sanction of the sovereign. These erroneous views were thoroughly exploded as early as 1810 by a committee of Parliament in a report commonly known as "The Bullion Report." That committee conclusively established the principle that money should derive its value and purchasing power from the metal composing it, and that a government's duty is to free this metal from all artificial restrictions, in order that the coin in circulation may truly represent the commercial value of the metal. It took Lombard Street ten years to comprehend and accept these principles; how long will it take the official mind of British India to reach the same conclusion?

In 1893 there was an almost universal apprehension that the silver mines of the United States would flood the world with silver and reduce the price to an indefinitely low figure. In that year the long agitation of the silver question in the United States had culminated in a demand for the repeal of the silver-purchasing clause of the Sherman Act, and in November of that year the measure was adopted. Anticipating this action, the government of India, in great alarm, closed its mints in June of the same year. It would be from the purpose of

this article to enter into any discussion of the causes of the disparity in the relative value of gold and silver; it may, however, be well to state incidentally that, at the very time of these occurrences, the owners of the mines that caused the alarm were agreeing that the low price of silver made it advisable for them to shut down their mines—a course which they then adopted and to which they have since adhered. I understand that the silver now produced in the United States comes altogether from lead and copper mining, silver being a co-product with these metals. It is also a co-product with gold, though to a much more limited extent; so that, practically, silver mining as such has ceased to be an industry in the United States.

The change in the relative value of gold and silver that had taken place between 1873 and 1893 was fairly expressed by the rupee. At the beginning of this period ten rupees were equal to £1 sterling, whereas at its close it required sixteen and a half rupees to buy a gold sovereign. In other words, the value of the rupee had fallen from 2s. to 1s. 2½d.; but this, be it remembered, applied only to its relation to gold, for with reference to other commodities the value of silver had changed but little. When the rupee was employed to pay gold debts, the divergence appeared as stated, but its purchasing power was not diminished when it was used to procure the products of the farm or of any of the industries. As the taxes are payable in silver and as the indebtedness of India to Great Britain is payable in gold, the Indian revenue was necessarily affected unfavorably by this divergence in the value of the two metals. During the twenty years that the rupee had been declining in value, there had been now a deficit and now a surplus, ending in March, 1893, with a net deficit of Rx. 2,398,000. If the decline in the revenue had been relatively the same as the decline in the value of the rupee, in which coin the taxes were paid, the deficit would have exceeded Rx. 40,000,000, but the deficit was not in that proportion, mainly for three reasons: first, because, though the rupee had declined in reference to gold, its purchasing power had diminished but little; secondly, because,

as the indebtedness of one nation to another is paid chiefly in general merchandise and not in the money metal, which is used to settle balances only, the debts of India to Great Britain were paid mainly in merchandise; thirdly, because production had steadily increased.

The metal that is the monetary standard of a people should be at all times in sufficient quantity in the circulation to meet every possible demand; it should be within the easy reach of every one, the laborer as well as the banker. This principle is fundamental and applies to all peoples, whether in the credit stage of industrialism or not, because even in the credit stage there is always a substratum that has not yet reached that stage. This principle of money applies, however, much more emphatically to communities that have not entered the credit stage than to those that have, because in the credit stage there is higher intelligence and a greater ability to neutralize any arbitrary restrictions imposed upon the people through mistakes in legislation. In support of this statement I will use the currency panic in the United States in August, 1893, to illustrate how an arbitrary restriction of the currency was met by a people in the credit stage, in contrast with the effect of a similar restriction (closure) upon the people of India. The panic of August, 1893, was caused by legislative restrictions imposed upon the issue of credit-money. Our government had appropriated to itself the exclusive right to issue paper money; I say "exclusive," for, notwithstanding that the national banks issue notes, these notes are so completely controlled by the government as to be practically government money. The currency had consequently little or no elasticity, and the hoarding of notes by individuals who had become alarmed over the silver agitation brought on the panic. Then it was that our people showed their ability to overcome the stringency in spite of arbitrary rulings. Individuals and corporations all over the land began immediately to issue paper money on their own account, though each issue, and every reissue as well, was subject to a tax of ten per cent. The tax on these issues has never been collected; yet the Act stands, a blot upon the statute-books

and a discredit to every Congress that has sat since its passage, March 3, 1865.

To be effective in promoting industry and productiveness, the currency of a people must, in response to the varying demand for money, have the quality of expanding in volume in seasons of active trade and of contracting when trade is dull. This is an essential qualification, whether the money is exclusively metallic, as in the case of a community that has not entered the credit stage, or is of metal and paper, as in the case of one that has. A community in the latter stage, however, because of its larger and more complex trade, needs a much more elastic currency than the former, and such a currency is only obtainable through the issue of credit-money. Indeed, without credit-money the trade of the world never could have reached its present magnitude, for the mere labor of handling the precious metals would long ago have checked its growth; these metals, besides, would have been quite insufficient in quantity.

The absolute need of elasticity in a currency has long been accepted as an economic principle, and so far as I know it is a principle that has never been questioned; yet this natural law has been utterly ignored by the Indian government. Except at the commercial centers, where paper money is in use, the currency of the people of India is necessarily metallic, and therefore can derive elasticity only from the interchange of the coined silver in circulation or from the innumerable small hoards of uncoined silver that are brought into monetary service when needed. But by the closing of the mints the uncoined silver was deprived of its monetary function and could, therefore, no longer contribute any elasticity to the currency. In addition to this, in order to force up the current value of the rupee so as to increase the taxes and thereby enlarge the revenue, the volume of rupees had to be reduced much below the minimum of the people's needs, the inevitable result being a rigidly inelastic currency. To raise the current value of the rupee above its bullion value it is necessary either to contract the volume of rupees in circulation or to redeem them in gold

at a gold valuation, and such redemption is, I understand, the ultimate aim of the Indian government. But even this course will not serve the needs of the cultivators, for it will not bring the uncoined silver into monetary service. The rupee will then be only a token, not real money. What credit does for more advanced communities the uncoined silver does for the peasant farmers of India; with open mints and coinage for individual account, the uncoined silver would impart the necessary elasticity to the whole volume of Indian currency.

The effect upon India of restricting the supply of metallic money differs only in degree from the effect produced in the United States by restricting the supply of credit-money. In both cases the productive power of the people is reduced; but while in India the result may be a famine, it is only in the case of panic that in the United States the hardship endured goes beyond an enforced economy in personal expenditure. A panic is the struggle among commercial men to maintain their credit, for if that goes down their business and their future prospects go down with it. With the cultivator in India there is no panic, for he has no credit, and his margin of capital above the famine line is so narrow that it may easily be reduced to nothing by a false governmental ruling that he is incompetent to overcome; he simply sinks into helplessness and hopelessness.

The enormous quantity of silver absorbed by Eastern nations in the past has been a marvel to Western financiers, but here is the explanation: These nations in their industrial progress have not yet reached the stage of economizing their money metal by the use of credit. Silver is the only metal that can serve the monetary needs of India, and she must have it in superabundance if she is ever to rise above famine conditions. No more unscientific and destructive ruling could have been adopted than the imposition of a gold monetary standard upon the people of India.

William Brough.

New York.

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Compliments of the Author

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